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## China, Peoples Republic of

### Market Development Reports

### City Profile: Qingdao, An Emerging City Market in

### North China

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**Report Highlights:** Qingdao is one of China's most affluent cities and ranked number one in the nation for quality of life in 2004. It is also one of the top 5 ports and single largest agricultural product import-export port in China. One of the fastest growing Emerging City Markets (ECM) in China, Qingdao has experienced rapid economic growth with GDP jumping 17% over the previous year to more than \$26 billion in 2004. The Qingdao market presents many excellent and unique opportunities for U.S. food and agricultural product traders.

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## Qingdao, an Emerging City Market (ECM)

Located at the southern tip of the Shandong Peninsula, Qingdao lies directly on the Pacific Ocean. Identified as one of the fastest growing cities in China, the medium sized city of 7 million boasts the number one ranking for quality of life in the nation. This important Emerging City Market also ranks in the top 5 ports in China, and more importantly is the country's largest agricultural product import-export port by volume. Long recognized for its rich history and natural beauty, the summer resort by the sea still reflects much of the 19<sup>th</sup> Century German colonial flavor with its many European style buildings. Also famous for the beer that bears the same name, Tsingdao Beer is one of the most popular Chinese brands inside and outside China. Co-host for the 2008 Beijing Olympics, Qingdao continues to benefit from a prolonged and ambitious urban makeover in preparation for the games.



With the opening of the ATO Beijing at the end of 2003, post actively began market development outreach in Qingdao in 2004. A number of highly targeted and successful marketing activities have been held there including a Great American Food In-store Promotion with Carrefour, participation in the China Seafood & Fisheries Show and FMI-NRA recruitment efforts. The rapidly developing Qingdao market economy and rising incomes provide a unique opportunity for US food and agricultural product suppliers.

## Qingdao, a Booming Economy

Qingdao continues to experience rapid economic growth, and over the past five years, city GDP growth averaged about 17% reaching \$26 billion in 2004. Urban per capita income also increased nearly 10% in 2004 over 2003. With authority to administer local economic and investment practices, Qingdao has played an important role in the development of China's economy in addition to its own. As a result, foreign investment in the city is estimated around \$6.0 billion and boasts an impressive portfolio of international firms such as Coca-Cola, AT&T, L-G, Lucent Technology, Nestle, Nike, Mitsubishi, etc.

Major industries in Qingdao include: textiles, railway equipment, rubber goods, fertilizer, chemicals, and food processing not to mention beer. The Qingdao port is ranked second in China for container handling capacity, and is a major international-regional sea route. In addition, air routes and land transportation are all quite efficient, making Qingdao one of the major transportation hubs in the Yellow River Valley. Qingdao handles more agricultural trade (in and out) than any other single port in China. China customs data indicates China's agricultural, fish and forestry imports from the world via Qingdao reached \$6,468 million in calendar 2004, with a 41.6% increase over 2003. Both imports and exports of agricultural products via the Port of Qingdao are the largest among all ports in China.

As one of the largest and most important aquatic products processing bases in China, Qingdao has made great improvements in a variety of areas including cold storage facilities, and processing technologies, thus meeting international standards. Most of the processed seafood products are for overseas markets like South Korea and Japan but Europe is a significant market as well. In 2004, total processed seafood exports reached \$537 million, which is on the largest category of agricultural product exports via Qingdao. In recent years, Qingdao has also become an important center for poultry product processing.

A growing economy and rising incomes are driving the imported food market in Qingdao. Cultural factors influence many of the ways newly affluent 'Qingdaoese' spend and consume. Consumption or purchasing of imported products as gifts provides big "face" or status and is often considered fashionable as well.



### Retail Industry, Transforming

During the past few years Qingdao's food retail sector has been dramatically transformed by the rapid rise of supermarkets and hypermarkets. As in many other cities in China, modern supermarkets and hypermarkets have become destinations for the entire family. These retail formats have extensive dry and frozen goods sections, fresh and frozen meat and seafood, prepared foods, and food service counters. They also include restaurants, fashion and sporting goods outlets, and other specialty shops. ATO Beijing has organized "Great American Food In-store Promotion" partnering with two Carrefour stores in Qingdao. An encouraging factor is that local customers show curiosity as well as great interest in U.S. food products. U.S. food products sales increased 45% during the 2004 promotion period.

Table 1: Qingdao Retail Outlets at a Glance

Type of Retailer	Name of Retailer	Ownership	Number of Outlets
Hypermarkets	Carrefour	French JV	2
	Jusco	Japan JV	1
	Wal-mart	U.S.	1

	Metro	German JV	1
Supermarkets	RT Mart	Taiwan JV	1
	Hualian	State- owned	6
	Liqun	State-owned	10
Convenience Stores	Liqun	State-owned	20

Source: ATO Beijing

Among all retail outlets, Carrefour and Jusco are the two major players in terms of sales revenue and sheer volume of shoppers. Carrefour-Mingda Qingdao has the highest sales revenue among all the Carrefour stores in China and daily number of shoppers is near the top of the list for all Carrefour stores worldwide (See North China Retail Report CH4405).

Imported items are not common in domestic supermarkets and even more rare in smaller food retail outlets. Thus, imports have a more substantial presence in foreign supermarkets and hypermarkets, although even in these stores, imports constitute no more than 4% of inventory. Most of the food imports supplied via coastal cities such as Guangzhou and Shanghai in the past. However, increasing demand for high-end food imports in Qingdao and Shandong Province has resulted in more direct imports via the Port of Qingdao. Many distributors are no longer satisfied with bringing small volumes of imported items from the South, instead, import products directly to supply Qingdao as well as other Shandong cities. These importers enjoy the benefits of reduced cost, improved product delivery times and higher profit margins. " It will be much easier for me to import fruit directly via Qingdao", said one trader. He distributes U.S. fruit to Carrefour, Jusco and RT Mart and finally decided to import directly as a result of participation in an ATO Beijing organized Trader/Buyer mission to the Produce Marketing Association (PMA) in October 2004. During the visit to PMA last year the local trader met with U.S. exporters directly to establish new sources.

### **Hotel Retail Institutional Sector (HRI) is on the Rise**

Similar to most Northerners, Qingdao residents used to eat most meals at home. However, this has changed in recent years due to increasing disposable incomes. More 'Qingdaoese' dine out for family gatherings, meeting friends, celebrating special occasions or just for fun. Local residents especially appreciate and favor fresh seafood consumption. Seafood restaurants like Yiqinglou and Haimengyuan operate highly successful chains in Qingdao.

Currently, very few imported food items can be found in Chinese restaurants. Western Kitchen (Cuisine) restaurants are the main ones using imported food. Most western restaurants are located in high-end hotels. Qingdao has three 5 star hotels, including the Shangri-la, Crown Plaza Holiday Inn, and Huiquan Dynasty. Internationally managed hotels like Shangri-la and Crown Plaza are the major users of imported food for their western restaurants. At end of 2003, the Alaska Seafood Marketing Institute held a menu promotion at the Shangri-la Qingdao. Seafood from Alaska drew a lot of interest from hotel patrons even though Qingdao is a major seafood processor for all of China. According to the Dep. Gen. Mgr. of the state-run Huiquan Dynasty Hotel, they are trying to modernize management as well as develop new restaurants and food services to meet market demand. We also understand the hotel has considered using imported food products as part of the hotel's regular menu offerings to improve food quality and attract more up-market customers.

Local taste-food imports reflect the strong presence of Japanese and Korean expatriates in Qingdao. These increasing populations have helped support both an internal market for

Western-international cuisine food as well as introduced new foods and tastes to the indigenous population of Qingdao and Shandong Province.

Travel is also a significant driver of imported food consumption in Qingdao. The increasing flow of international and domestic travelers continues to add greater diversity to the local food mix. In 2004, for example, Qingdao experienced a sudden boom in Western-style pubs and cafes. Domestic tourism is booming with Qingdao ranked as one of the top Chinese tourist destinations thus fueling growth in new hotel and restaurant development. The 2008 Olympics are expected to provide a large boost to China's tourism and Qingdao appears well positioned to both expand and thrust its tourism into the international arena.

### Market Entry Tips

ATO Beijing interviewed local importers, distributors and buyers, and they offer the following tips for those interested entering the Qingdao market:

- Take time to investigate the market, and partner with a good distributor. Successful ventures require a qualified-experienced distributor who knows the local market.
- Take baby steps to start; unless you are already supplying: retail; Quick Service Restaurants, hotel groups do not ship large volumes of product.
- Despite increasing income, Qingdao is still a highly price-sensitive market. Be very carefully about selling products that compete on price with similar local products.
- Play the healthy, nutritious, and fashion angle to the hilt since many Qingdao consumers believe it's 'safer' and 'fashionable' to consume imported products.

### Summary

The strong and vibrant Qingdao economy should continue to drive a number of food and agricultural product markets resulting in potentially significant growth over the next decade. As local incomes expand, the mix of products should become more diverse, especially in the High Value Product categories. Local and Central government efforts to develop Qingdao's economy, co-hosting of the 2008 Olympics and the ever-rising high quality of life should provide excellent opportunities for a number of food and agricultural products. Also, more direct imports using the Port of Qingdao, improving distribution, a rapidly expanding middle-class, and increasing demand for high quality food products should all continue to make Qingdao a market US food and agricultural product exporters should not ignore.



Qingdao at Night